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THE ONTARIO ECONOMY TO 1987 - a discussion paper prepared by the Ontario Economic Council for the Outlook and Issues Conference.

TORONTO -- Failure to return to the good economic performance of the 1960's is the projection for the national and Ontario economies made in a discussion paper released today by the Ontario Economic Council. Factors affecting this result are: changes in the rate of growth and composition of the population, and, changes in the availability and price of energy, and, changes in the composition of output and employment.

The Ontario Economy to 1987 is one of a series of three discussion papers which will form the focal point of the annual Outlook and Issues Conference to be held this year on Monday, April 25th at The Prince Hotel in Toronto. Panels of prominent economists, businessmen, labour leaders, academics, and government officials will exchange their views on the papers with attendees.

The projections for the national and Ontario economies were prepared for the Council by four economists at the Institute for Policy Analysis of the University of Toronto. In addition to a projection based on the assumption of unchanging economic policies, political events and world economic conditions, alternative projections were prepared to assess probable results due to changes in energy prices, immigration and in tax cuts.

The discussion paper is divided into seven sections: Priorities; Some Projections; Population and Labour Force Trends; Financial Aspects of the Outlook; Labour-Management Relations in the Public Sector; Regulation of the Economy; Productivity and Competitiveness; and, Managing the Economy.

Priorities

There are painful trade-offs which must be made among a number of competing goals and the choice can only be made by the political process, states the Council. In the current period of lower growth and uncertainty, the Council believes that politicians will tend to trade off environmental quality, enhancement of lifestyle and Canadian independence for more traditional goals of full employment, reasonably stable prices and a high and steady rate of economic growth. The "lifestyle" goals will remain on the list of priorities, however.



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Some Projections

The Ontario Economic Council is not a forecasting body, but it commissioned some projections for the Ontario and national economies for the next decade.

The projections are based on assumptions which seem reasonable at present. The Council emphasizes that they are projections, not forecasts, and does not speculate about changes in the assumptions which may, or will likely, occur.

The sensitivity of the projections to changes in energy prices, immigration and a tax cut have been assessed by the preparation of alternate projections which consider these factors. In the 'high-price' energy scenario, the projected net result is a less-than-fully employed economy before and especially after a period of high energy investment.

All projections lead to the conclusion that without policy or other changes, the unemployment rate in Ontario (as a percentage of the labour force) will rise to over 7% in 1978 and stay above that level through 1980. The rate of inflation will improve, but remain above 3.9% for the next decade.

Population and Labour Force Trends

A marked decline in the rate of growth of the labour force will reduce the rates of growth of national and provincial output.

On average, the population of Ontario is becoming older and this will result in substantial reductions in the demand for school places.

A more conservative society may result from the aging of the population and the movement of more persons into higher marginal tax brackets, speculates the Council. One result could be increased opposition to public sector growth.

Financial Aspects of the Outlook

Neither a shortage of capital nor a sharp rise in real rates of interest is suggested by the projections, but a continued inflow of foreign capital is expected.

Lower nominal interest rates should result from a deceleration in the rate of price increases. Business should be helped by the lengthening of the maturity of debts and the lowering of debt-equity ratios.

A decline in net financing from non-public sources such as the Canada Pension Plan and Ontario Teachers' Superannuation Fund will complicate provincial government financing in the 1980's, the Council believes. The Council urges the Province to continue its efforts to reduce the growth of its spending to help ameliorate this problem.

Labour-Management Relations in the Public Sector

Tying public sector wage increases to those in the private sector would reduce criticism of public wage settlements which are perceived as high, but the Council notes that high public sector incomes would become increasingly higher in absolute terms as a result of a percentage increase formula. Other employment factors, such as security and fringe benefits must be considered.

The right to strike is not the major issue in public sector labour relations. It is difficult, perhaps impossible, to enforce laws prohibiting large illegal strikes, and the Council believes that damage claims imposed on unions in the event of an illegal strike are likely to be the only effective deterrent.

Regulation of the Economy

"The case for market interference by government in specific instances is often vague," believes the Council, and the ultimate cost of such regulation is borne by consumers through higher prices and labour through higher unemployment and lower wages and salaries. "Profits, on the other hand," the Council states, "are frequently raised when regulations restrict competition by inhibiting entry or by so-called 'supply management'."

"Who will regulate the regulators?", asks the Council in the discussion paper. Regulation may have proceeded too far in many areas, the Council believes, but government cannot adequately appraise existing measures because elected representatives are too busy and to rely on officials is only to increase the discretionary powers of the regulators.

The Council suggests that regulatory authority should be granted for limited periods of time only, more resources should be given to the legislature to assess the consequences of regulation, and, methods other than restricting competition should be selected to provide assistance.

Productivity and Competitiveness

Canada's ability to compete in international markets is a long-term concern, states the Council. A decline in the growth rate of productivity and a faster rise of salaries and wages than in the United States have been major factors in creating this concern.

Managing the Economy

"Fiscal policy has become a much less flexible instrument" of stabilization policy, believes the Council, because of continued high rates of government spending and the monetary implications of financing deficits. If growth in the public sector were more limited, tax reductions rather than increased government spending could be emphasized.

Through our economic history, the Council believes, policy makers have tended to concentrate on only one problem at a time. The interrelationships between economic problems and the long and variable lags of the economy in response to policy changes must be recognized by the public. Public understanding of these factors will permit government decision-makers to address long-run problems rather than opting for short-run, popular solutions.

NOTE: Selected quotations attached

The Ontario Economy to 1987 - published by the Ontario Economic Council.

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THE ONTARIO ECONOMY TO 1987

SELECTED QUOTATIONS

To achieve greater equality of opportunity, it is vital that our institutions be structured to facilitate sociological and economic mobility: upward mobility for the able and industrious and downward mobility for the less competent and less highly motivated. (Page 5)

The projections suggest that in the latter years of this decade the labour force will grow slightly faster than employment, thereby increasing the unemployment rate. Subsequently, the increase in energy investment will tend to reduce the unemployment rate from the high levels which currently exist. However, it appears that, compared to the levels of the 1950s and 1960s the unemployment rate will remain high. (Page 17)

...the Province's cash requirements will have to be met in increasing amounts by public borrowing. Because the Province also borrows for Ontario Hydro there is likely to be increasing difficulty in financing the development of additional electric energy capacity unless energy prices are adjusted appropriately. (Page 26)

The problem of wage determination in many parts of the public service is compounded by the difficulties or the impossibility of measuring changes in the productivity of many public servants. In many instances their output is so intangible that the argument that output per worker has risen 10 percent is as plausible as the argument that it has fallen 10 percent. (Page 31)

It is projected that the construction industry will have the largest increase in output from 1977 to 1982, followed by the service industry. Manufacturing and the goods producing industries generally are projected to improve their output growth marginally while the resource industries are shown as growing at about the same annual rate as in 1975-1977. Employment is unlikely to grow as quickly as output in any of these industries. An exception is the government sector where employment growth may outpace output (although this is at least in part the result of the way in which output in the public sector is measured). It appears that the largest gain in employment will be in the service sector. (Page 47)

